

**Department of Health and Human Services
Division of Licensing and Regulatory Services
State House Station #11, Augusta, Maine
Preliminary Analysis**

Date: December 8, 2021

Project: Calais Community Hospital Transfer of Certain Assets and Operations of
Calais Regional Hospital to Calais Community Hospital

Proposal by: Calais Community Hospital

Prepared by: Larry Carbonneau, Manager - Health Care Compliance, DLC
Richard Lawrence, Senior Health Care Financial Analyst, DLC

Directly Affected Party: None

Certificate of Need Unit Recommendation: Approval

	Proposed Per Applicant	Approved CON
Estimated Capital Expenditure	\$ 0	\$ 0
Maximum Contingency	\$ 0	\$ 0
Total Capital Expenditure with Contingency	\$ 0	\$ 0
Pro-Forma Marginal Operating Costs	\$ (2,857,539)	\$ (2,857,539)

I. Abstract

A. From Applicant

Introduction

Calais Community Hospital (“CCH”) submits this application (the “Application”) for a Certificate of Need (the “CON”) regarding CCH’s purchase of certain assets from Calais Regional Hospital and CCH’s operation of those assets after closing on the purchase (the “Transaction”).

CCH is a non-profit, tax-exempt corporation formed under the laws of the State of Maine and is an affiliate of Down East Community Hospital (“DECH”). DECH formed CCH for the purpose of undertaking the Transaction, which Transaction was approved by the Bankruptcy Court for the District of Maine (the “Bankruptcy Court”). The goal of the Transaction was to preserve the Calais Regional Hospital resources and delivery of hospital-based health care services in the Calais region, through this new licensed hospital, in a financially viable manner.

This Application outlines the process through which CCH will accomplish the important goal of preserving and facilitating the delivery of hospital-based care, which delivery was threatened by the financial issues confronted by Calais Regional Hospital, as evidenced by its chapter 11 bankruptcy filing in September of 2019. CCH has and will continue to work closely with DECH, other providers in the region, and community stakeholders to promote and achieve the goals of the Transaction.

Two emergency CONs were previously granted to CCH in connection with this Transaction, as discussed in further detail below. The emergency CONs, and the CON for the Transaction sought by this Application, will preserve and support the continuation of the fundamental structure, operations, resources, and services previously provided by Calais Regional Hospital in and through CCH.

As set forth below, granting of the Application is essential and all of the elements for justifying the transition to the new ownership are established and necessary for the public interest, health, and welfare of the State of Maine and its residents. The Transaction and related ongoing operations are intended to preserve (and continue through CCH) the resources and services historically provided by Calais Regional Hospital. CCH believes that access to quality health care services will be maintained and improved in the Calais region as a result of the Transaction.

Background regarding Calais Regional Hospital

Calais Regional Hospital is a Maine non-profit, tax-exempt corporation with its principal location, prior to the closing of the Transaction, located at 24 Hospital Lane, Calais, Maine. It was incorporated in 1917 and had the mission “to provide and plan patient care, educational and restorative services that meet our customers’ expectations, commensurate with available resources.” Prior to the closing of the Transaction, Calais Regional Hospital operated a 25-bed general medical and surgical hospital in Calais, with approximately 259 employees and approximately 216 full-time equivalent positions.¹ Calais Regional Hospital, designated as a critical access hospital, served patients in eastern Washington County, Maine, and also provided services to some Canadian patients.

Summary and Status regarding Calais Regional Hospital’s Bankruptcy Proceeding

For many years, Calais Regional Hospital experienced operational losses. Faced with cash shortfalls that required it to reorganize its financial affairs, on September 17, 2019 (the “Petition Date”), Calais Regional Hospital filed a voluntary petition for relief under chapter 11 of the Bankruptcy Code in the Bankruptcy Court (the “Bankruptcy Proceedings”). Upon information and belief, Calais Regional Hospital’s operational losses continued in during the Bankruptcy Proceedings. Between the Petition Date and October 31, 2020, Calais Regional Hospital reported that it earned \$25,015,720 of “Net Patient Revenue” from its hospital operations, while incurring total operating expenses of \$29,037,580, for losses of at least \$4,021,860.

With the onset of the COVID-19 pandemic, the federal government provided substantial stimulus payments to healthcare providers, including rural, critical access hospitals, like Calais Regional Hospital. Although these stimulus payments sustained operations in the short-term, Calais Regional Hospital continued to suffer operating losses that undermined its ability to provide health care services for the long-term.

During the Bankruptcy Proceedings, Calais Regional Hospital and DECH engaged in discussions regarding DECH’s potential purchase of certain assets from Calais Regional Hospital, with the goal being for DECH, or an affiliate, to continue operating Calais Regional Hospital’s critical access hospital in a financially stable manner. DECH, also located in Washington County, hoped to find a way to ensure high-quality health care services in the adjacent community. Early discussions directly with Calais Regional Hospital were not productive, causing DECH to begin to negotiate a sale transaction with the Official Committee of Unsecured Creditors appointed in the Bankruptcy Proceedings and various creditors of Calais Regional Hospital (collectively, the “Creditors”). These efforts culminated in consensus around an Asset Purchase Agreement (the

¹ Taken from September 17, 2019 Motion for Authority to Pay Pre-Petition Wages file on behalf of Debtor Calais Regional Hospital in the Chapter 11 Bankruptcy Proceedings.

“APA”) between CCH and Calais Regional Hospital, who eventually agreed to the Transaction orchestrated by the Creditors and CCH.

Under the terms of the APA, CCH agreed to purchase certain assets of Calais Regional Hospital, including Calais Regional Hospital’s real property (including the hospital campus), tangible personal property, inventory, permits, intellectual property, patient records and other books and records and licenses and registrations, to the extent transferable (defined as the “Acquired Assets” in the APA). The APA either expressly excluded or otherwise did not include other assets of Calais Regional Hospital, including, but not limited to, Calais Regional Hospital’s cash and accounts receivable (defined as the “Excluded Assets” in the APA).

On March 24, 2021, the Bankruptcy Court entered a Confirmation Order (the “Confirmation Order”), approving the First Amended Chapter 11 Plan dated February 24, 2021 for Calais Regional Hospital Prepared by the Official Committee of Unsecured Creditors and Katahdin Trust Company (the “Plan”). Copies of the Plan and the Confirmation Order are attached hereto as Exhibit A. The Plan authorized Calais Regional Hospital to enter into the APA. The Bankruptcy Court also approved a proposed Management Services Agreement between Calais Regional Hospital and CCH (the “Management Services Agreement”), pursuant to which CCH would oversee the operations and management of Calais Regional Hospital from the effective date of the Plan through the closing of the Transaction (which management was performed in conjunction with a Plan Officer designated through the Plan).

As consideration for the Acquired Assets, CCH assumed a portion of Calais Regional Hospital’s debt with the United States Department of Agriculture (the “USDA”) in the amount of \$2,000,000.00. The USDA initially also agreed to advance up to \$3,700,000.00 of its collateral (in the form of cash and accounts receivable of Calais Regional Hospital) securing the obligations of Calais Regional Hospital to the USDA. The \$3,700,000.00 was ultimately increased to \$4,700,000.00. The financing provided by the USDA is on favorable terms. For the first year of CCH operations, CCH is required to pay interest only to the USDA at a fixed rate of 1%. Thereafter, the rate increases to 2 1/8% fixed for thirty years. CCH believes that the amount of the loans from the USDA (which decreased considerably when compared to the debt load carried by Calais Regional Hospital), together with the favorable financing terms, will allow CCH to operate going forward

Additional details regarding the Transaction and the Bankruptcy Proceedings are set forth in the First Amended Disclosure Statement with Respect to the First Amended Chapter 11 Plan for Calais Regional Hospital Prepared by the Official Committee of Unsecured Creditors and Katahdin Trust Company dated February 24, 2021, a true and correct copy of which is attached hereto as Exhibit B.

Emergency Certificates of Need

On March 8, 2021, CCH submitted a request pursuant to 22 M.R.S.A. § 329(1) to the Maine Department of Health and Human Services (the “Department”) for an emergency CON to permit CCH to manage and oversee Calais Regional Hospital’s operations, pending the closing of the Transaction. On March 24, 2021, the request for the emergency CON was supplemented by CCH. The Department granted the emergency CON effective as of March 24, 2021, allowing the continued operation of Calais Regional Hospital pursuant to the Management Services Agreement (the “First Emergency CON”). A copy of the Management Services Agreement and Amendment is attached hereto as **Exhibit C**.

Also on March 8, 2021, CCH submitted a Letter of Intent with supporting documents regarding the plans for the Transaction and requesting an emergency CON for the Management Services Agreement, to permit CCH to manage and oversee the Calais Regional Hospital operations, pending consummation of the planned Transaction.

On April 5, 2021, CCH submitted a second request for an emergency CON, related to the plans for the Transaction. Specifically, this request sought approval for the planned purchase of certain assets of Calais Regional Hospital by CCH. On April 26, 2021, the Department approved the second emergency CON (the “Second Emergency CON”) to permit the closing of the Transaction pursuant to the APA and continued operation of health care services by CCH after closing. The Second Emergency CON was issued with the condition that a full Application for a CON (“CON Application”) would be subsequently filed by CCH. The written requests to the Department and the Department’s letters approving the requests for the First and Second Emergency CONs are attached here as **Exhibits D-1 through D-6**.

The closing of the Transaction occurred on and was effective on July 1, 2021 (the “Effective Date”). The Management Services Agreement expired by its terms at that time (with certain provisions surviving termination). As of the Effective Date, consistent with the Second Emergency CON, CCH became the owner and operator of the hospital in all respects and moved forward with the health care operations in the Calais region historically performed by Calais Regional Hospital.

Overall Benefit, Need and Justification for the Transaction

The purchase by CCH of the Acquired Assets, facilitated by the resources and manpower supplied by DECH, have allowed the continuation of the delivery of hospital-based health care services in the Calais region. The opportunity and benefits are immeasurable, including the continuation of available resources and care in the community, and a governance structure that

will include input by members of the Calais region, by having seats on the Board of Trustees of CCH. Specifically, the Board of Trustees will essentially be a mirror image of the DECH Board of Trustees, with the addition of up to two representatives from the Calais region (who will be appointed at the time of the resignation of existing members of the DECH Board of Trustees). The Chief Executive Officer and the Chief Operating Officer will be the same for both organizations. These local factors will be balanced by guidance and stability from CCH and its parent DECH. DECH has proven its ability to sustain economic viability while delivering quality care to its patients, and the DECH model of operations will be applied to CCH going forward. Further, the DECH/CCH business plan involves the preservation of services while creating efficiencies through combining aspects of administration of the organizations.

The plan for the delivery of health care services is to continue (as initiated during the management phase of this Transaction) to stabilize operations, increase revenues and improve access to and delivery of quality health care. The plan includes streamlining management, as noted, while maintaining services and finding contractual approaches to reducing overhead costs. An example of cost-savings is the MRI lease for Calais Regional Hospital, which has already been replaced and combined with the DECH MRI lease. The available MRI services and quality standards remain virtually the same.

Transaction Cost

There are no capital expenditures planned at this time in connection with the Transaction.

CONU Comment #1:

According to 22 M.R.S.A §329 (1) a Certificate of Need is required for:

Transfer of ownership; acquisition by lease, donation, transfer, or acquisition of control.

CONU Comment #2:

Calais Regional Hospital (CRH) declared Chapter 11 bankruptcy on September 17, 2019. Due to the necessity of continuing hospital services in the Calais, Maine area, two Emergency CON approvals were granted, resulting in Calais Community Hospital (CCH) assuming ownership and operational control of all hospital assets and operations formerly performed by (CRH). The purpose of this final CON is to determine if CCH meets the CON review standards and can continue to provide vital hospital services in the Calais area.

II. Fit, Willing and Able

A. From Applicant

Summary of the Transaction

In accordance with the terms and conditions of the APA and the Confirmation Order, CCH purchased the Acquired Assets effective as of the Effective Date and has continued providing hospital-based health care services in the community post-closing of the Transaction. Like Calais Regional Hospital, as noted above, CCH operates as a Maine non-profit 501(c)(3) tax-exempt, fully licensed critical access hospital. The day-to-day operations of CCH are managed by the same senior leadership team as DECH, and CCH and DECH now share the same Board of Trustees.

Profile of the Applicant

Calais Community Hospital
24 Hospital Drive
Calais, Maine 04619
<http://calaishospital.org>

CCH's mission is to "improve the health of the people in the Sunrise County by being as passionate, determined and resilient as those we serve and by balancing exceptional service, financial integrity, current technology, staff satisfaction and collaborative community involvement." (CCH web page). CCH is committed to collaborative relationships to achieve better care, better health, and lower costs for Maine residents. Through collaboration with DECH, streamlining administration, soliciting input from community organizations and residents, and focusing on improving coordination of care for patients, CCH will develop a stronger foundation for the hospital, which will help to ensure its financial stability and longevity.

The CCH bylaws reflect the mission and governance structure of CCH. The sole member of CCH is Down East Community Hospital. The general management of the affairs of CCH is vested in a Board of Trustees consisting of no fewer than eleven (11) persons and no more than fifteen (15) persons. The roster of the Board of Trustees of CCH is included here at **Exhibit E**. A resume/description for each individual is included at **Exhibit F-1 through F-15**.

CCH is continuing Calais Regional Hospital's role as a 25-bed critical access hospital for acute care and swing bed patients with a 24-hour physician staffed emergency department. As set

forth on its web site, it continues to serve Northeastern Washington County (which has an approximate population of 14,000 from Topsfield to the North, Wesley to the West and Eastport to the south). CCH is currently the largest employer in Calais, employing roughly 200 people.

Key Personnel

In addition to the Board of Trustees, CCH has a strong management team. The Chief Executive Officer and the Chief Financial Officer of CCH each hold the same positions with DECH. This allows for splitting time between the organizations, and for each entity to share the costs (salary and overhead) of the positions. Perhaps more importantly, DECH and CCH each get the benefit of the experience and expertise of each individual. Further, shared roles allow for collaborative and coordinated, and thus cost efficient, operations. Resumes for the individuals in these key leadership roles are included in **Exhibit G-1 and G-2**.

CCH Chief Executive Officer: Steven Lail

CCH Chief Financial Officer: Lynnette Parr

The Plan and CCH's Willingness and Ability to provide the Services

CCH has already illustrated its plan to accomplish the mission of "Two Hospitals, One Team, One Focus" as reflected on the CCH website. The website reflects the following: "We want Calais to have a fully functioning hospital and want to bring back full-time general surgery, add primary care providers, and eventually bring additional specialties that will benefit all of Washington County. We all need to work together to stabilize this hospital and make our new mini healthcare system financially strong. It will take time to get us to that point but once we stabilize, we hope to rebuild bigger and better than before." [CCH Website].

All of the services and resources available from CCH will remain the same as had existed for Calais Regional Hospital prior to the Effective Date. By way of illustration, the pertinent sections of the Calais Regional Hospital license identifying the service lines are included here as **Exhibit H-1**. The only service line that was discontinued during the Bankruptcy Proceedings was home health.² The rest of the service lines provided by Calais Regional Hospital are currently offered by CCH and are listed on the CCH license. The pertinent sections of the CCH license

² In May of 2017, Calais Regional Hospital created Calais Regional Health Services ("CRHS"), a separate corporation, for the delivery of home health services so that the hospital would no longer be directly providing home health services after that time. The patients served by CRHS and otherwise supported by Calais Regional Hospital were transferred to the care of other home health agencies in the region prior to the Effective Date.

identifying the services lines are included here at **Exhibit H-2**. Moreover, since the Effective Date, CCH has hired a Family Practice Physician, Family Nurse Practitioner, Hospitalist, and both a General Surgeon and an Orthopedic Surgeon, which allows CCH to restart and invigorate the Orthopedic office and orthopedic surgical services in the Calais Community. This should increase patient access to needed care, and reduce waiting time for services, and/or reduce travel to other regions for the surgical service.

The Medical Staff of Calais Regional Hospital will continue as the Medical Staff for CCH, subject to standard credentialing requirements, employment contract terms and employment related decisions made in the course of ordinary CCH operations.

While there are further improvements planned for the delivery of medical services by CCH when compared to Calais Regional Hospital's services, it is worth noting that most recent, past audits and inspections of Calais Regional Hospital by the State of Maine found only a few deficiencies. A copy of the DHHS Centers for Medicare Services' ("CMS") inspection conducted in November of 2020 yielded a deficiency related only to the fact that staff were not fully in compliance with COVID-19 staff eye protection requirements. This was promptly addressed. Confirmation of the Plan of Correction was confirmed by the State of Maine in a Plan of Correction letter dated December 14, 2020.

Regional Support

The Transaction was approved by the Bankruptcy Court by the Confirmation Order in March of 2021. In the course of the Bankruptcy Proceedings, Calais Regional Hospital submitted Resolutions by the Board of Trustees, evidencing approval and support for the Transaction. A copy of the Resolutions is attached here at **Exhibit I**.

Summary of Fit, Willing and Able

Since the Effective Date, CCH has already proven its ability to navigate the demands of the health care industry for a small critical access hospital --- promoting quality care, patient safety and delivery of needed health care services for the Calais region. The willingness to engage in the Transaction and preserve an acute care hospital in this region has been evidenced by CCH by the work and resources devoted to this, to date.

B. Certificate of Need Unit Discussion

i. CON Standards

Relevant standards for inclusion in this section are specific to the determination that the applicant is fit, willing and able to provide the proposed services at the proper standard of care as demonstrated by, among other factors, whether the quality of any health care provided in the past by the applicant or a related party under the applicant's control meets industry standards.

ii. CON Unit Analysis

Subsequent to the September 2019 bankruptcy, CRH was purchased by CCH whose sole corporate member is Down East Community Hospital (DECH). CCH will continue to provide the majority of the services that were originally provided by CRH (with the exception of home health) and will collaborate extensively with DECH to improve access to hospital services in the Calais, Maine area. As stated by the applicant, CCH and DECH share top management positions and Board memberships which will further unify efforts to improve healthcare services in the Downeast region.

According to the CCH website (calaishospital.org):

"CCH is a 25-bed critical access hospital for acute care and swing bed patients with a 24-hour physician staffed emergency department. It continues to serve Northeastern Washington County with an approximate population of 14,000 from Topsfield to the North, Wesley to the West and Eastport to the south. CCH is the largest employer in Calais, employing more than 200 people."

"Services offered at the Hospital include clinics in cardiology; prosthetics-orthotics; and blood pressure. Out-patient services include laboratory procedures, physical therapy, occupational therapy, speech therapy, osteoporosis management and prevention, radiology, including fixed unit CT scan, mobile MRI, bone density testing, ultrasound exams and digital mammography, infusion services, day surgery, pulmonary rehabilitation, nutritional counseling and respiratory care procedures. A multi-specialty courtesy staff of physicians and a variety of allied medical specialists compliment the members of the Hospital's active medical staff."

In order to document that Calais CCH is fit, willing and able CONU reviewed quality measures available at the Medicare hospital compare website (<https://www.medicare.gov/care-compare>). Quality measures available at this site include:

- 1): Overall star rating
- 2): Patient survey rating
- 3): Timely and effective care
- 4): Complications & deaths
- 5): Unplanned Hospital visit

Unfortunately, data for these measures at CCH is unavailable since they are such a new organization. Since CCH is closely aligned with DECH (shared ownership and management). CONU will review quality measures associated with DECH. The data is presented below:

Overall Star Rating:

The overall star rating for hospitals summarizes quality information on important topics, like readmissions and deaths after heart attacks or pneumonia. The overall rating, between 1 and 5 stars, summarizes a variety of measures across 7 areas of quality into a single star rating for each hospital. The 7 measure groups include:

- Mortality
- Safety of care
- Readmission
- Patient experience
- Effectiveness of care
- Timeliness of care
- Efficient use of medical imaging

The overall rating shows how well each hospital performed on an identified set of quality measures compared to other hospitals in the U.S. The more stars, the better a hospital performed on the available quality measures. DECH received an overall 3-star rating.

For comparison purposes the following table is included which shows the national distribution of the overall star rating (April 2021 results):

Overall Rating	No. of Hospitals (N = 4,586), %
1 stars	204(6.06%)
2 stars	690 (20.57%)
3 stars	1,018 (30.34%)
4 stars	988 (29.45%)
5 stars	455 (13.56%)
N/A	1,181 (26.03%)

DECH's rating is equal to the average national overall star rating.

Patient Survey Rating:

The patient survey rating measures patients' experiences of their hospital care. Recently discharged patients were asked about important topics like how well nurses and doctors communicated, how responsive hospital staff were to their needs, and the cleanliness and quietness of the hospital environment. The DECH measurements along with National and Maine measurements are outlined below:

Patient Survey Rating	DECH	National	Maine
Patients who reported that their nurses "Always" communicated well.	90%	80%	85%
Patients who reported that their doctors "Always" communicated well.	88%	81%	84%
Patients who reported that they "Always" received help as soon as they wanted.	79%	67%	73%
Patients who reported that the staff "Always" explained about medicines before giving it to them.	70%	63%	69%
Patients who reported that their room and bathroom were "Always" clean.	82%	73%	78%
Patients who reported that the area around their room was "Always" quiet at night.	56%	63%	59%
Patients who reported that YES, they were given information about what to do during their recovery at home.	93%	86%	89%
Patients who "Strongly Agree" they understood their care when they left the hospital.	61%	52%	56%

Patients who gave their hospital a rating of 9 or 10 on a scale from 0 (lowest) to 10 (highest).	84%	72%	76%
Patients who reported YES, they would definitely recommend the hospital.	78%	71%	77%

The number of cases/patients was too few to report a star rating for DECH in this category.

Timely and Effective Care:

Timely and Effective Care	DECH	National	State
Percentage of patients who left the emergency department before being seen	1%	2%	2%
Emergency department volume	Low	NA	NA
Average (median) time patients spent in the emergency department before leaving from the visit	129 min.	119 min.	135 min.
Percentage of outpatient CT scans of the abdomen that were "combination" (double) scans	.5%	1.90%	1.30%

Many measures relating to timely and effective care were not available (NA). However, measures that are available indicate that DECH is better than State and National averages in several instances and worse than national average in time spent in the emergency room.

Complications and Deaths:

Patients who are admitted to the hospital for treatment of medical problems sometimes get other serious injuries, complications, or conditions, and may even die. Some patients may experience problems soon after they are discharged and need to be admitted to the hospital again. These events can often be prevented if hospitals follow best practices for treating patients.

Measures concerning complications were not available for DECH.

Infections	DECH	National
Clostridium difficile (Codify.) intestinal infections	.913	ND

NA = Not Available/Not applicable, ND = No difference, B = Better

Only one infection measure was available for DECH and it showed no difference between DECH and National averages.

Death Rates	DECH	National
Death rate for COPD patients	8.2%	ND
Death rate for pneumonia patients	16.1%	ND

NA = Not Available/Not applicable, ND = No difference

DECH is different than national averages in the two available death rate measures.

Unplanned Hospital Visits:

Returning to the hospital for unplanned care disrupts patients' lives, increases their risk of harmful events like healthcare-associated infections, and costs more money. Hospitals that give high quality care can keep patients from returning to the hospital and reduce their stay if they have to come back.

Unplanned Hospital Visits	DECH	National
Rate of readmission after discharge from hospital (hospital-wide)	14.7%	ND
Rate of readmission for chronic obstructive pulmonary disease (COPD) patients	19.2%	ND
Rate of readmission for pneumonia patients	16.6%	ND
Rate of inpatient admissions for patients receiving outpatient chemotherapy (per 100 chemotherapy patients)	10.9%	ND
Rate of emergency department (ED) visits for patients receiving outpatient chemotherapy (per 100 chemotherapy patients)	6.8%	ND

NA = Not Available/Not applicable, ND = No Different, B = Better

DECH is no different in national averages for the five measures available for unplanned hospital visits.

Survey Results

CONU examined the most recent survey results for DECH. CCH has not had surveys since they opened. The results of the most recent surveys are as follows:

Federal Survey

A Federal recertification revisit survey occurred at DECH on December 17, 2018. DECH is in substantial compliance with 42 Code of Federal Regulations Part 485, Conditions of Participation for Critical Access Hospitals.

Complaint Survey

A Federal Complaint Survey (#36326) was conducted at DECH on 5/4/2021 through 5/6/2021. A COVID-19 FIC Survey and a federal complaint investigations were conducted at Down East Community Hospital, a Critical Access Hospital, to evaluate compliance with 42 CFR, Part 485, Condition of Participation: Infection Prevention & Antibiotic Stewardship Programs (§485.640). The survey determined the hospital was in substantial compliance with 42 CFR, Part 485.640.

CCH intends to introduce several quality improvement measures to enhance care delivery and improve operating results going forward.

Deeming of Standard

As provided for at 22 M.R.S. § 335 (7)(A), if the applicant is a provider of health care services that are substantially similar to those services being reviewed and is licensed in the State, the requirements of this paragraph are deemed to have been met if the services previously provided in the State by the applicant are consistent with applicable licensing and certification standards.

As stated by the applicant, CCH Hospital is a new entity, however its predecessor, CRH and its current owner DECH have been licensed to provide a wide array of hospital services in the State of Maine for many years. The services provided by the applicant are consistent with applicable licensing and certification standards. Due to the lack of survey history for CCH the following condition applies:

Condition: The applicant is to report improvements in quality and outcome measures for services provided by CCH on an annual basis, within 90 days of its fiscal year end, beginning with the time period when the CON was approved until a full three years have elapsed since the date of the CON approval.

iii. Conclusion

The Certificate of Need Unit recommends that the Commissioner find that the applicant is fit, willing and able to provide the proposed services at the proper standard of care as demonstrated by, among other factors, whether the quality of any health care provided in the past by the applicant or a related party under the applicant's control meets industry standards.

III. Economic Feasibility

A. From Applicant

Background

The financial feasibility of the Transaction is demonstrated by improvements already experienced in the financial condition of CCH compared to Calais Regional Hospital. The financial challenges faced by Calais Regional Hospital up to and through the Bankruptcy Proceedings were demonstrated in the Calais Regional Hospital Monthly Operating Reports filed during the Chapter 11 Bankruptcy Proceedings (“Monthly Operating Reports”). The Monthly Operating Reports are publicly available through the Bankruptcy Court.

As set forth above, CCH was able to reduce the debt obligations historically shouldered by Calais Regional Hospital by more than half and was able to finance these reduced debt obligations through beneficial financing terms offered by the USDA. The impact of these changes was to reduce the expense side of operations considerably. A reduction in operating expenses has also been realized through shared management of DECH and CCH, including the positions of Chief Executive Officer and Chief Financial Officer.

In addition to reducing expenses, CCH has also already undertaken positive steps toward increasing cash flow, while sustaining if not improving the delivery of all service lines. Included here at **Exhibit J** is a Projected Statement of Profit & Loss prepared by CCH for the three-year time period of July 1, 2021 through 12/31/2024 (“CCH P&L”). It is anticipated that patient volume will remain stable with an anticipated drop in emergency room visits assuming a reduction in COVID-19 related visits. The projections at **Exhibit J** are intended to reflect future anticipated improvements and outcomes from the Transaction, which generally are intended to preserve the Calais Regional Hospital goodwill, assets, resources and service lines.

Anticipated Future Changes

CCH intends to improve upon, and not reduce or detract from, the services for which Calais Regional Hospital was licensed. The shared management yields tremendous benefits in administrative efficiencies and in capitalizing on the breadth of knowledge and experience of the DECH/CCH management team and Board of Trustees. Further, CCH has revitalized the Quality Department, including implementing a number of quality initiatives to allow the measurement and monitoring of quality metrics not previously captured in a meaningful way. Examples include:

- Q-Statim – Internal electronic variance/incident reporting system, a software

systems that facilitates reporting and tracking of incident or adverse outcomes.

- CCH has appointed a Quality Indicators Team (the same committee with the same standards in place for DECH). This approach ensures that all hospital departments are using and tracking quality metrics. This team meets monthly to monitor progress and ensure compliance with goals and standards.
- CCH has formed and implemented a Peer Review Program, which had not been operational under Calais Regional Hospital. The restructured peer review program includes triggers for case reviews for any service line. Further, the use of external peer review is required for any incident or circumstances that merit heightened evaluation of any individual, as well as for systemic matters.
- CCH has implemented the use of the National Research Corporation tools for survey-based performance measurement, analysis, and tracking services. This allows for timely (including real time) feedback regarding patient care and regulatory compliance and provides points of comparison with other organizations.
- CCH has undertaken an approach to training and encouragement with respect to a culture of patient satisfaction and patient safety. A Patient Safety Program and Patient Safety Survey is in the development stage and includes input from staff to assist in gathering data and monitoring areas of potential improvement.
- CCH has undertaken implementation of Patient Safety Data Dashboards. The results are maintained and monitored by the Quality Improvement and Patient Safety Committee are reported to the Board of Trustees on a monthly basis.
- CCH has created a system for educating nursing staff and promoting a collaborative relationship with New England Donor Services (“NEDS”). NEDS coordinates organ and tissue donation, and CCH is working with NEDS and a newly hired CCH liaison to coordinate screenings and organ access.
- CCH has instituted a Service Recovery Program modeled after national standards recognizing the fundamental “axioms of service recovery.” This program, ranging from initial communications to complaint management to follow-up actions, is intended to promote patient satisfaction even following an unfavorable treatment outcome or minor misstep in the delivery of health care.
- CCH has implemented steps to ensure compliance with Maine Health Data Organization data submission requirements, including coordinating efforts between the Quality Assurance Committee and IT staff and systems.
- CCH has systems in place to promote meaningful, organized meetings with staff to promote communication regarding and compliance with COVID-19 requirements, standards, and evolving patient and staff protections.

- CCH has installed temperature kiosk stations for efficiency/screening related to COVID-19.

The programs and systems are overseen by the CCH Quality Department, spearheaded by a Quality Manager and Quality RN Supervisor.

CCH intends to continue improving upon existing programs and potentially adding health care services and programs to benefit the region. CCH has no current plan to remove any service lines.

Financial Statements and Key Financial Measures

The CCH P&L is included here at **Exhibit J**.

For comparison purposes, copies of the two most recent audited financial statements of Calais Regional Hospital (2018 - 2019 and 2019 – 2020) are attached here at **Exhibit K-1 and K-2**.

CON Filing Fee

Under 10-144 Chapter 503 Maine Certificate of Need Procedures Manual, Chapter 6 Section 8, the filing fee for a CON is calculated based upon capital expenditures. There are no capital expenditures associated with this Transaction. Accordingly, the minimum filing fee of \$5,000.00 applies.

Summary of Financial Feasibility

Losses incurred by Calais Regional Hospital prior to and through the Bankruptcy Proceedings have already been addressed by reduction of the debt through the financial agreement reached in the Bankruptcy Proceedings, including with the USDA (see above for a more detailed discussion of the USDA financing), the planned efficient use of shared management, performance improvement efforts and revenue cycle improvement. Based on these categories of financial improvements, CCH estimates, as reflected on **Exhibit J** that it will be cash flow positive through at least 2024 (the period reflected on the projections).

B. Certificate of Need Unit Discussion

i. CON Standards

Relevant standards for inclusion in this section are specific to the determination that the economic feasibility of the proposed services is demonstrated in terms of the:

- Capacity of the applicant to support the project financially over its useful life, in light of the rates the applicant expects to be able to charge for the services to be provided by the project; and
- Applicant's ability to establish and operate the project in accordance with existing and reasonably anticipated future changes in federal, state, and local licensure and other applicable or potentially applicable rules.

ii. CON Unit Analysis

In order to assess the financial stability of the applicant, the CONU used financial ratios to measure profitability, liquidity, capital structure and asset efficiency. CONU examined both DECH and CRH's (predecessor organization of CCH) financial results. Financial ratios were obtained from the Maine Health Data Organization Hospital Financial Information Part 1 and Maine Health Data Organization Hospital Financial Data Definitions available on MHDO's website <http://mhdo.maine.gov/imhdo/>. Additional information was obtained from the 2019 Almanac of Hospital Financial and Operating Indicators.

PROFITABILITY RATIOS

CONU used three profitability ratios to measure the applicant's ability to produce a profit (excess of revenue over expenses). Hospitals cannot be viable in the long term without an excess of revenues over expenditures. Cash flow would not be available to meet normal cash requirements needed to service debt and investment in fixed or current assets. Profitability has a large impact on most other ratios. For example, low profitability may adversely affect liquidity and sharply reduce the ability to pay off debt.

Operating margin: The operating margin is the most commonly used financial ratio to measure a hospital's financial performance. The operating margin measures the proportion of operating revenue retained as income and measures the hospital's profitability from providing patient care and other hospital operations.

This ratio is calculated as follows: *Operating Income/Total Operating Revenue*

Operating Margin	2015	2016	2017	2018	2019
CRH	(5.23%)	(3.49%)	(6.58%)	(2.28%)	(3.24%)
DECH	(0.57%)	1.58%	1.21%	.27%	4.11%
All Maine Hospital Median	0.23%	(0.54%)	0.78%	0.39%	1.33%
National Median	N/A	N/A	N/A	N/A	N/A

Performance implications: Increasing values are favorable

Net Operating Income (Loss): Net operating income is calculated by subtracting operating expense from operating revenue. This measure is used to look at how a hospital's net operating income performed in comparison with last years' figure and whether or not there is a positive or negative trend in the future.

Net Operating Income (Loss)	2015	2016	2017	2018	2019
CRH	(\$1,811,723)	(\$1,268,279)	(\$2,240,280)	(\$680,408)	(\$933,370)
DECH	(\$203,923)	\$612,490	\$516,342	\$121,445	\$2,052,058
All Maine Hospital Median	\$194,646	(\$341,747)	\$533,127	\$542,620	\$1,620,528
National Median	N/A	N/A	N/A	N/A	N/A

Return on Equity: This ratio defines the amount of excess revenue over expenses and losses earned per dollar of equity investment. Most not-for-profit hospitals received their initial, start-up equity capital from religious, educational, or governmental entities, and today some hospitals continue to receive funding from these sources. However, since the 1970s, these sources have provided a much smaller proportion of hospital funding, forcing not-for-profit hospitals to rely more on excess revenue over expenses and outside contributions. Many analysts consider the Return on Equity measure a primary indication of profitability. A hospital may not be able to obtain equity capital in the future if it fails to maintain a satisfactory value for this ratio. This ratio was calculated as follows: *Excess of Revenue over Expenses/Fund Balance-Unrestricted*

Return on Equity	2015	2016	2017	2018	2019
CRH*	N/A	N/A	N/A	N/A	N/A
DECH	(1.52%)	9.70%	7.20%	3.84%	17.62%
All Maine Hospital Median	2.06%	.04%	7.56%	3.82%	6.65%
National Median	7.00%	5.80%	4.50%	N/A	N/A

Performance implications: Increasing values are favorable

Trends: Nationally many hospitals were showing improvements.

* -ROE was not calculated for CRH because both excess of revenue over expenses and fund balance-unrestricted are negative.

LIQUIDITY RATIOS

CONU used three liquidity ratios to measure the applicant's ability to meet short-term obligations and maintain cash position. A poor liquidity ratio would indicate that the hospital is unable to pay current obligations as they come due.

Current Ratio (Without Board Designated and Undesignated Investments): Current ratio is a liquidity ratio that measures a company's ability to pay short-term obligations. The ratio is mainly used to determine if the hospital is able to pay back its short-term liabilities (debt and payables with its short-term assets (cash, inventory, receivables). From an evaluation standpoint, high values for the Current Ratio imply a high likelihood of being able to pay short term obligations. A ratio under 1 suggests that the hospital would be unable to pay off its obligations if they came due at that point.

This ratio is calculated as follows: ***Total Current Assets/Total Current Liabilities***

Current Ratio	2015	2016	2017	2018	2019
CRH	0.85	0.76	0.57	0.53	0.99
DECH	1.33	1.44	1.27	1.40	1.93
All Maine Hospital Median	1.70	1.91	1.83	1.81	1.63
National Median	2.19	2.17	2.29	N/A	N/A

Performance implications: Increasing values are favorable

Trends: The Current Ratio continues to show improvements across many hospitals. This continued improvement implies that hospitals are generally well managing their liquidity.

Days Cash on Hand (Current): Days cash on hand is a common measure that gives a snapshot of how many days of operating expenses a hospital could pay with its current cash available. High values for this ratio usually imply a greater ability to meet short term obligations and are viewed favorably by creditors.

This ratio is calculated as follows: ***Cash & Investments + Current Assets Who's Use is Limited/Total Advertising + Salaries & Benefits + Other Operating Expenses + Interest/365 days***

Days Cash on Hand (Current)	2015	2016	2017	2018	2019
CRH	8.7	5.1	10.6	4.4	17.9
DECH	25.8	17.6	15.0	33.9	39.2
All Maine Hospital Median	28.3	18.8	18.2	24.9	14.6
National Median	29.7	33.1	44.3	N/A	N/A

Performance implications: Increasing values are favorable

Average Payment Period (Current Liabilities): This ratio provides a measure of the average time that elapses before current liabilities are paid. Creditors regard high values for this ratio as an indication of potential liquidity problems.

This ratio is calculated as follows: *Total Current Liabilities/ ((Total Expenses – Depreciation Expense/365).*

Average Payment Period	2015	2016	2017	2018	2019
CRH	91.3	93.5	105.0	123.2	70.0
DECH	63.5	69.9	52.0	54.5	46.3
All Maine Hospital Median	75.5	71.5	57.9	54.9	53.3
National Median	54	52.6	53.7	N/A	N/A

Performance implications: Decreasing values are favorable.

Trends: Nationally, this ratio has been creeping upwards during the last five years. Large hospitals have some of the higher values as do hospitals with low operating margins.

CAPITAL STRUCTURE RATIOS

CONU used three capital structure ratios in order to measure the applicant's capacity to pay for any debt. The hospital industry has radically increased its percentage of debt financing over the past two decades making this ratio vitally important to creditors who determine if a hospital is able to increase its debt financing. The amount of funding available to a hospital directly impacts its ability to grow.

Debt Service Coverage: This ratio measures the amount of cash flow available to meet annual interest and principal payments on debt. A DSCR of less than 1 would mean a negative cash flow. This ratio is calculated as follows: *Excess of Revenue over Expenses + Depreciation + Interest/Interest + Previous Years Current LTD*

Debt Service Coverage	2015	2016	2017	2018	2019
CRH	0.58	0.77	0.02	0.75	0.59
DECH	1.90	2.69	2.46	1.71	3.30
All Maine Hospital Median	2.99	2.09	2.90	2.69	3.36
National Median	3.39	3.33	2.32	N/A	N/A

Performance implications: Increasing values are favorable

Cash Flow to Total Debt: This coverage ratio compares a company's operating cash flow to its total debt. This ratio provides an indication of a hospitals ability to cover total debt with its yearly

cash flow from operations. The retirement of debt principal is not a discretionary decision. It is a contractual obligation that has definite priority in the use of funds. Therefore, a decrease in the value of the Cash Flow to Total Debt ratio may indicate a future debt repayment problem. The higher the percentage ratio, the better the company's ability to carry its total debt.

This ratio is calculated as follows: *Excess of Revenue over Expenses + Depreciation/Total Current Liabilities + Total Non- Current Liabilities*

Cash Flow to Total Debt	2015	2016	2017	2018	2019
CRH	0.01%	1.48%	(3.48%)	1.75%	0.35%
DECH	10.28%	16.22%	14.70%	11.79%	18.63%
All Maine Hospital Median	10.70%	9.46%	14.44%	11.66%	14.92%
National Median	22.50%	19.80%	17.30%	N/A	N/A

Performance implications: Increasing values are favorable.

Fixed Asset Financing: This ratio defines the proportion of net fixed assets (gross fixed assets less accumulated depreciation) financed with long-term debt. This ratio is used by lenders to provide an index of the security of the loan. This ratio is calculated as follows: *Long Term Debt/Net Plant, Property & Equipment*

Fixed Asset Financing	2015	2016	2017	2018	2019
CRH	101.05%	112.00%	119.07%	122.53%	N/A
DECH	23.21%	16.67%	33.30%	33.80%	78.99%
All Maine Hospital Median	43.67%	45.83%	47.31%	46.09%	50.94%
National Median	44.40%	45.20%	57.40%	N/A	N/A

Performance implications: Decreasing values are favorable.

Trends: Nationally, this ratio has declined for the last three years.

ASSET EFFICIENCY RATIOS

CONU used two asset efficiency ratios. These ratios measure the relationship between revenue and assets.

Total asset turnover ratio: Provides an index of the number of revenue dollars generated per dollar of asset investment. Higher values for this ratio imply greater generation of revenue from a limited resource base and are sometimes viewed as a positive indication of efficiency. This ratio is affected by the age of the plant being used by the hospital. This ratio is calculated as follows: *Total Operating Revenue + Total non-operating Revenue/Total Unrestricted Assets.*

Total Asset Turnover	2015	2016	2017	2018	2019
CRH	1.44	1.60	1.69	1.56	1.57
DECH	1.77	1.86	1.92	1.90	1.51
All Maine Hospital Median	1.18	1.22	1.41	1.58	1.63
National Median	1.01	1.00	0.97	N/A	N/A

Performance Implications: Increasing values are favorable

Trends: Nationally, these values have held fairly steady for the last several years.

Fixed Asset Turnover Ratio: Measures the number of revenue dollars generated per dollar of fixed asset investment. High values for this ratio may imply good generation of revenue from a limited fixed asset base and are usually regarded as a positive indication of operating efficiency. This ratio is calculated as follows: *Total Operating Revenue/Net Plant, Property, & Equipment*

Fixed Asset Turnover	2015	2016	2017	2018	2019
CRH	2.27	2.58	2.64	2.44	2.53
DECH	3.51	4.00	3.18	3.38	3.44
All Maine Hospital Median	3.02	3.04	3.15	3.35	3.54
National Median	N/A	N/A	N/A	N/A	N/A

Performance implications: Increasing values are favorable

CONU Summary of Financial Ratios: Below is a chart summarizing the percentage of time CRH and DECH meet or exceeds Maine or National medians between 2015 and 2019.

CRH	RATIO	MAINE	NATIONAL
Profitability	Operating Margin	0%	NA
Profitability	Net Operating Income	0%	NA
Profitability	Return on Equity	NA	NA
Liquidity	Current Ratio	0%	0%
Liquidity	Days Cash on Hand	20%	0%
Liquidity	Avg. Payment Period	0%	0%

Capital Structure	Debt Service Coverage	0%	0%
Capital Structure	Cash Flow to Total Debt	0%	0%
Capital Structure	Fixed Asset Financing	0%	0%
Asset Efficiency	Total Asset Turnover	80%	100%
Asset Efficiency	Fixed Asset Turnover	0%	NA

NA-Not available

DECH	RATIO	MAINE	NATIONAL
Profitability	Operating Margin	60%	N/A
Profitability	Net Operating Income	40%	N/A
Profitability	Return on Equity	60%	67%
Liquidity	Current Ratio	0%	0%
Liquidity	Days Cash on Hand	40%	0%
Liquidity	Avg. Payment Period	100%	33%
Capital Structure	Debt Service Coverage	20%	33%
Capital Structure	Cash Flow to Total Debt	80%	0%
Capital Structure	Fixed Asset Financing	80%	100%
Asset Efficiency	Total Asset Turnover	80%	100%
Asset Efficiency	Fixed Asset Turnover	80%	NA

NA-Not available

CRH met or exceeded Maine performance averages in 1 out of 11 measures and exceeded National averages in 1 out of 11 measures. DECH meets or exceeds Maine performance measures in 7 out of 11 measures and exceeds National averages in 3 out of 11 measures.

As noted above, the summary of financial ratios demonstrates that CRH had several years of poor financial performance. A review of the December 31, 2020 and 2019 audited financial statements (on file at CONU), prepared by BerryDunn, determined that there was a substantial doubt about the hospital's ability to continue as a going concern. BerryDunn noted that CRH experienced significant operating losses for several years and further stated:

"The uncertainties inherent in the bankruptcy process and the Hospitals recurring losses and negative cash flows from operations raise substantial doubt about the Hospital's ability to continue as a going concern"

On September 17, 2019, CRH filed a petition for relief under Chapter 11 of the United States Bankruptcy Code. On February 19, 2021, DECH filed a motion with the Court to allow DECH to purchase substantially all of the assets of the Hospital. A formal plan was filed and approved by the Court on March 24, 2021. CRH was acquired by CCH, a wholly owned subsidiary of DECH on July 1, 2021. Closing of the transaction was subject to CON approval from the State of Maine, Department of Health and Human Services.

As stated by the applicant the purchase price of the CRH assets was the assumption of a \$2,000,000 obligation currently owed to the United States Department of Agriculture (USDA) and the costs relating to certain leases and contracts. The interest on the obligation is 1% for year one and 2.125% from year two onward. The note will be amortized over thirty years. The USDA also provided \$1.5 million in initial start-up funding to be added to the note balance. The asset purchase excludes accounts receivable and amounts due from Medicare and MaineCare. The amounts subsequently collected are to be advanced to DECH, subject to a cap of \$2.2 million, and also added to the note, capping the total note at \$5.7 million. In April 2021, CCH received a Paycheck Protection Program (PPP) loan of \$2,785,878 as part of the CARES Act.

In addition to the favorable loan terms, management plans to stabilize operations, enhance revenues and improve access to, and delivery of quality health care. As stated previously management has been streamlined with DECH and CCH sharing top management and Board of Trustees positions. Further efficiencies will be achieved by combining certain administrative functions between CCH and DECH. Overhead costs will be further reduced by renegotiating leases and contracts.

CCH submitted a Projected Statement of Profit & Loss for the 6 months ending in December 2021 through December 31, 2024. The Final Gain (Loss) projections are as follows:

Calais Community Hospital	2021	2022	2023	2024
Final Gain (Loss)	\$ (531,667.00)	\$ 35,656.00	\$ 76,968.00	\$ 140,951.00

After an initial loss, CCH is expected to achieve profitability by December 31, 2022.

CCH has restructured debt and implemented measures to enhance revenues and reduce costs while maintaining needed healthcare services, however, there are significant long-term financial challenges involved with operating a rural hospital. These challenges include low patient volume, heavy reliance on MaineCare and Medicare for reimbursement, geographic isolation, aging infrastructure, staffing recruiting and retention issues and the need to invest in infrastructure and technology. Long-term viability is a significant concern.

In response to these concerns CCH submitted the following statement:

Calais Community Hospital ("CCH") can say that it, and its parent company Down East Community Hospital, recognized and acknowledged these types of listed challenges from the outset. Therefore, the early stages of the plans to purchase the Calais Regional Hospital ("CRH") assets through the bankruptcy proceeding, and to preserve the delivery of hospital services in that region, included evaluation and analysis of how to repeat the mistakes and failings that brought CRH into bankruptcy. Most important, CCH is using Down East Community Hospital as a template and guidepost for all aspects of governance and operations. CCH is relying upon Down East Community Hospital's success and input (through shared Boards and shared Executive Directors and Financial Officers) with respect to issues such as recruiting and retention of medical staff, re-negotiation of commercial insurance contracts, and implementing contracts with vendors at competitive, reasonable prices. With respect to contracting, one example is the restructuring

of the lease arrangement for the Magnetic Resonance Imaging equipment at significant cost savings. This has already been accomplished. Moving forward, and looking to the future, CCH plans to maintain those systems and the fundamental array of services that help make basic hospital services available to people in that region, to fill a need. Where efficiencies can be created with Down East Community, those will be pursued. Where improved contracting arrangements can be accomplished, those will be implemented.

Changing Laws and Regulations

Certificate of Need Unit staff is not aware of any imminent or proposed changes in laws and regulations that would impact the project.

Deeming of Standard

As provided for at 22 M.R.S. § 335 (7)(B), if the applicant is a provider of health care services that are substantially similar to those services being reviewed and is licensed in the State, the applicant is deemed to have fulfilled the requirements of this standard if the services provided in the State by the applicant during the most recent 3-year period are of similar size and scope and are consistent with the applicable licensing and certification standards.

CCH is a new entity, however its predecessor, CRH and its current owner DECH have provided a wide array of hospital services similar in size and scope to current operations. in the State of Maine for many years. This project does not seek to expand or discontinue current services but seeks to achieve financial and operating efficiencies in order to maintain necessary health care services in CCH's service area. The deeming standard has been met. Due to the numerous financial challenges facing CCH, CONU is including the following condition:

Condition: In order to monitor CCH's financial position, the applicant is to promptly provide a copy of CCH's annual audited financial statements that clearly identify CCH's financial performance (balance sheet, income statement, utilization data), when such audited financial statements are issued, for the time period(s) beginning the date the CON is approved until the expiration of three years thereafter. In addition, the applicant is to report the addition of any new health services in accordance with MRS Title 22, Chapter 103-A §329 (4) or reductions of hospital service lines, (as reference on the Division of Licensing and Certification Hospital Application for Initial, Renewal, and Licensing Changes) provided by CCH during this time period.

iii. Conclusion

Certificate of Need Unit staff recommend that the Commissioner determine that the applicant has met their burden to demonstrate: (1) the capacity of the applicant to support the project financially over its useful life, in light of the rates the applicant expects to be able to charge for the services to be provided by the project; and (2) the applicant's ability to establish and operate the project in accordance with existing and reasonably anticipated future changes in federal, state and local licensure and other applicable or potentially applicable rules.

IV. Public Need

A. From Applicant

Community.

There is no doubt that the Transaction and continuation of medical services by CCH in place of Calais Regional Hospital will substantially address and improve health care in the region. The people of Washington County need and have and continue to significantly benefit from the ongoing existence of a critical access hospital in the Calais region. Most importantly, this Transaction is aimed at preserving and restoring resources and services that have proven historically invaluable and necessary. Further, the Transaction is intended to ensure that the resources and services can be sustained in a financially feasible manner, while preserving, if not improving, access to and quality of medical services.

A Community Health Needs Assessment from 2019 (prepared by the CHNA Collaborative) examined and opined regarding health needs of Washington County residents. The Washington County top 5 priorities were:

- Mental Health;
- Substance Use;
- Access to Care;
- Older Adult Health/Healthy Aging; and
- Social Determinants of Health.

These needs and interests are best delivered by regional resources and close to home providers. There is national data supporting that health care access close to home is related to improved health outcomes. The inclusion of access to care --- also a statewide priority --- illustrates the importance of having a hospital in the Calais region, and not having to drive a long distance for hospital-based care and important hospital-based community programs.

The Anticipated Positive Impact on Health Status Indicators

The Transaction is necessary to support the continued improvement in health status indicators in the Calais region. In today's challenging health care industry and economic environment, the State of Maine must continue to strive for means of improving healthcare access and quality outcomes while lowering costs. The census, ages and health needs of the people in the Calais region, and the projected negative impact on health care delivery and health outcomes if the Calais Regional Hospital simply closes, justify and compel continuing the existence of the

hospital, and granting CCH's Application for a Certificate of Need so that it can continue the work it has already devoted to this Transaction and its goals.

Hospital Services Available to all Residents

The CCH medical services that are the subject of this Transaction will be accessible to all residents of the Calais region. CCH will improve upon Calais Regional Hospital's community-based care through improved systems, lower costs, better quality and most of all, will preserve the areas health care system. The population, nature, extent, reach and accessibility of the services should remain the same as offered by Calais Regional Hospital, except to the extent that CCH intends to inject improvements in all areas.

The same service lines will be offered and available to all patients, except that CCH expects demonstrable improvements in quality and outcomes measures in relation to the service lines. As set forth above, there are a number of quality improvement measures that have already been implemented to monitor patient satisfaction and track treatment outcomes. The benefit to the public lies in the preservation of the hospital and medical services, and in the improvement of the delivery model and the health care. The patient experience should be the same or better than prior to the Effective Date, with improved financial structure and projections. The Calais Regional Board of Trustees approved the Transaction through the Bankruptcy Proceedings, and the City of Calais had input through legal representation and in securing various rights in the event CCH determines that it cannot continue to operate the hospital. In short, the public needs, wants and will substantially benefit from the preservation and ongoing viability of the acute care hospital in this region.

B. Certificate of Need Unit Discussion

i. CON Standards

Relevant standards for inclusion in this section are specific to the determination that there is a public need for the proposed services as demonstrated by certain factors, including, but not limited to:

- Whether, and the extent to which, the project will substantially address specific health problems as measured by health needs in the area to be served by the project;
- Whether the project will have a positive impact on the health status indicators of the population to be served;
- Whether the services affected by the project will be accessible to all residents of the area proposed to be served; and
- Whether the project will provide demonstrable improvements in quality and outcome measures applicable to the services proposed in the project.

ii. CON Unit Analysis

This project allows CCH to continue the necessary services provided by CRH. This project does not propose or forecast significant changes in service volume. The ability to continue providing needed services in Calais, Maine is critical to retain access to health care and improve health care outcomes. To determine public need, CONU analyzed demographic and service use trends in CCH's primary service area (Washington County, Maine). CONU utilized the Older Adults with Physical Disabilities: Population and Service Use Trends in Maine, 2012 Edition, prepared by the Muskie School of Public Service and the U.S. Census Bureau's website located at <http://census.gov/quickfacts/>.

Washington County located in eastern Maine and has an area of 3,258 square miles. The population estimate as of July 1, 2019 is 31,379. Approximately 24.8% of the population is 65 or older. To put this in perspective the 65 or older population of the United States is 16%. The 65+ population is expected to increase. This population is a heavy consumer of hospital services. Maine's 65 and above age group continues to grow at a rate faster than New England and the rest of the nation.

In order to maintain existing hospital services, financial and operating efficiencies must be achieved through construction of a new hospital. Maintaining necessary hospital services would continue to substantially address specific health problems associated with an aging population which increasingly requires more intensive care. In 2019, Maine's four largest healthcare system, NLH, Central Maine Health Care, MaineGeneral Health and MaineHealth in concert with the Maine Center for Disease Control and Prevention partnered to research and publish a shared Community Health Needs Assessment. Blue Hill used this data to identify health priorities and initiatives to address these unmet needs within Hancock County. As stated previously by the applicant these needs are:

- 1). Mental Health
- 2). Substance Abuse
- 3.) Access to Care
- 4.) Older Adult Health/Healthy Aging
- 5.) Social Determinants of Health

These needs are in alignment with both CCH and DECH, also located in Washington County. Strong connections with another hospital in the service area will strengthen these initiatives and enhance the health status indicators of the population to be served.

The services affected by the project will be accessible to all residents of the area proposed to be served. CCH provides important access to care for many remote communities in Washington County. In order to maintain access to care close to home, improve the health and well-being of the population, and maintain volume and specialty care in the service area this project is necessary.

The project will provide demonstrable improvements in the quality and outcome measures for patients that require hospital services. CCH's ongoing participation in quality improvement programs, described in a previous section of this analysis, along with collaboration with DECH will encourage a strong focus on continuous improvement and care integration.

iii. Conclusion

The Certificate of Need Unit recommends that the Commissioner find that the applicant has met their burden to show that there is a public need for the proposed project.

V. Orderly and Economic Development

A. From Applicant

The Transaction is consistent with the orderly and economic development of health facilities and health resources for the State of Maine. Most importantly, the Transaction preserves the status quo in the region, and continues in existence the availability of hospital services in an area of proven need. There are no less costly alternatives, as the option, if this Transaction is not supported, would be to not have a hospital to serve the northeastern region of Washington County.

The State of Maine benefits from the preservation of the hospital.

There is no demonstrable impact on total healthcare expenditures after taking into account the impact on payors of healthcare services. Notably, comparing the financial information of Calais Regional Hospital and CCH, the operating expenses have already been reduced by three million dollars. These reductions represent cost savings to the State of Maine

B. Certificate of Need Unit Discussion

i. CON Standards

Relevant standards for inclusion in this section are specific to the determination that the proposed services are consistent with the orderly and economic development of health facilities and health resources for the State as demonstrated by:

- The impact of the project on total health care expenditures after taking into account, to the extent practical, both the costs and benefits of the project and the competing demands in the local service area and statewide for available resources for health care;
- The availability of state funds to cover any increase in state costs associated with utilization of the project's services; and
- The likelihood that more effective, more accessible, or less costly alternative technologies or methods of service delivery may become available.

ii. CON Unit Analysis

As stated by the applicant, the fundamental reason for this proposed project is the preservation of hospital services in rural Washington County, Maine. Subsequent to the CRH bankruptcy and formation of CCH, management has taken numerous actions to stabilize hospital operations and position CCH for long-term viability.

This project is not anticipated to substantially increase the utilization of State Funds. Based on historical and projected data there should be no increased utilization due to this project and little change in the facilities patient mix. This project is expected to allow CCH to provide necessary

services in the Calais area. No increased costs or service utilization is expected from maintaining the status quo in the area. According to the 2019 American Hospital Association Rural Report, rural hospitals provide local, timely access to care which saves lives and reduces the expense and inconvenience of traveling to distant facilities. Rural hospitals serve as economic anchors in their communities providing jobs and improving the local economy through the purchase of goods and services.

The applicant did not consider alternatives to this project. CRH was not a viable entity and doing nothing would have ultimately resulted in the closure of CRH and a lack of necessary services in the area. Given that this project continues an existing service and utilizes an existing physical plant it is unlikely that a more effective, more accessible, or less costly alternative for providing needed hospital services is available.

iii. Conclusion

The Certificate of Need Unit recommends that the Commissioner find that the applicant has met its burden to demonstrate that the proposed project is consistent with the orderly and economic development of health facilities and health resources for the State.

VI. Outcomes and Community Impact

A. From Applicant

The approval of this Transaction and granting the Application will ensure high-quality outcomes and would not negatively affect the quality of care for the people in the service region. Most important, the region not only has the capacity for these services there is historical demonstrated need for the services. CCH is able to provide the services, at a high-quality level as demonstrated by the quality improvement information set forth above, while reducing costs and ensuring long-term financial stability.

The Board of CCH review, quality performance measures at least monthly through the QA and Patient Safety committees, using a myriad of quality assurance metrics resulting in reports to Board.

In summary, the continuation of CCH as a hospital and the delivery of health care services by CCH in this region would ensure and would not negatively impact the quality of care delivered by existing service providers.

B. Certificate of Need Unit Discussion

i. CON Standards

Ensures high-quality outcomes and does not negatively affect the quality of care delivered by existing service providers.

ii. CON Unit Analysis

CCH has a commitment to continuous improvement and the provision of high-quality care. CCH has undertaken a revitalization of its' quality department and outlined a number of new and improved initiatives including a tracking system to monitor incidents or adverse outcomes, formation of a Quality Indicators Team, instituted a Peer Review Program, adopted tools for survey-based performance measurement, analysis and tracking and is developing a Patient Safety Program. CCH has a culture of continuous improvement to existing programs and may add additional health care services to the region. There are no plans to discontinue any current service lines. Community health and high-quality clinical results in Washington County will be enhanced by the close collaboration of CCH and DECH. The quality of care delivered by existing service providers will not be negatively impacted by this transaction because there will be no change in the range or level of services currently provided in the region.

iii. Conclusion

Certificate of Need Unit recommends that the Commissioner find that the applicant has met their burden to demonstrate that this project will ensure high-quality outcomes and does not negatively affect the quality of care delivered by existing service providers.

VII. Service Utilization

A. From Applicant

The Transaction will permit the ongoing availability of hospital care and services to the residents of northeastern Washington County.

CCH is expanding access to healthcare services. Management has evaluated and identified staffing needs within each former Calais Regional department in order to have consistent access to the services provided.

To further improve available local resources, CCH is developing its presence in orthopedics and general surgery. Two new surgeons have been hired and will begin their practice on October 27th, 2021. This should avoid the need for area residents to have to migrate to other facilities for necessary care and should increase operating room volume for inpatient and outpatient surgery. This will positively impact utilization of resources such as laboratory, imaging, and rehabilitation services.

The Hospital is also expanding the staffing and services available from its Family Practice Clinic services. A new Nurse Practitioner will be starting in January 2022.

There are no issues presented with respect to conflicts or duplication of services – the preservation of these services is worthwhile and necessary for the good and benefit of the people of Maine in general and for northeastern Washington County in particular

B. Certificate of Need Unit Discussion

i. CON Standards

Relevant standards for inclusion in this section are specific to the determination that the project does not result in inappropriate increases in service utilization, according to the principles of evidence-based medicine adopted by the Maine Quality Forum as established in Title 24-A, section 6951, when the principles adopted by the Maine Quality Forum are directly applicable to the application.

ii. CON Unit Analysis

This project maintains existing hospital services and new service lines are not being added. Any growth in service levels will be due to demographic factors and not inappropriate increases in service utilization. CCH and DECH can collaborate to ensure continuity of care and participate in provider

efforts to improve health outcomes and reduce health care costs through a focus on eliminating duplicative or unnecessary utilization in the service area.

iii. Conclusion

Certificate of Need Unit recommends that the Commissioner find that the applicant has met their burden to demonstrate that the project does not result in inappropriate increases in service utilization, according to the principles of evidence-based medicine adopted by the Maine Quality Forum.

VIII. Timely Notice

A. From Applicant

CCH is following applicable procedures with respect to the Certificate of Need Application process.

B. Certificate of Need Unit Discussion

Letter of Intent filed:	October 4, 2021
Technical assistance meeting held:	October 28, 2021
CON application filed:	November 3, 2021
CON certified as complete:	November 8, 2021
Public Information Meeting held:	Waived
Public Hearing held:	N/A

IX. Findings and Recommendations

Based on the preceding analysis, including information contained in the record, the Certificate of Need Unit recommends that the Commissioner make the following findings subject to conditions:

- A. The applicant is fit, willing and able to provide the proposed services at the proper standard of care as demonstrated by, among other factors, whether the quality of any health care provided in the past by the applicant or a related party under the applicant's control meets industry standards.

Condition: The applicant is to report improvements in quality and outcome measures for services provided by CCH on an annual basis, within 90 days of its fiscal year end, beginning with the time period when the CON was approved until a full three years have elapsed since the date of project completion.

- B. The economic feasibility of the proposed services is demonstrated in terms of the:

1. Capacity of the applicant to support the project financially over its useful life, in light of the rates the applicant expects to be able to charge for the services to be provided by the project; and
2. Applicant's ability to establish and operate the project in accordance with existing and reasonably anticipated future changes in federal, state, and local licensure and other applicable or potentially applicable rules;

Condition: In order to monitor CCH's financial position, the applicant is to provide a copy of CCH's audited financial statements that clearly identify CCH's financial performance (balance sheet, income statement, utilization data) on an annual basis, beginning with the time period when the CON is approved until a full three years have elapsed since the date of project completion.

- C. There is a public need for the proposed services as demonstrated by certain factors, including, but not limited to;

1. The extent to which the project will substantially address specific health problems as measured by health needs in the area to be served by the project;
2. The project has demonstrated that it will have a positive impact on the health status indicators of the population to be served;
3. The project will be accessible to all residents of the area proposed to be served; and

4. The project will provide demonstrable improvements in quality and outcome measures applicable to the services proposed in the project;
- D.** The proposed services are consistent with the orderly and economic development of health facilities and health resources for the State as demonstrated by:
1. The impact of the project on total health care expenditures after taking into account, to the extent practical, both the costs and benefits of the project and the competing demands in the local service area and statewide for available resources for health care;
 2. The availability of State funds to cover any increase in state costs associated with utilization of the project's services; and
 3. The likelihood that more effective, more accessible, or less costly alternative technologies or methods of service delivery may become available was demonstrated by the applicant;
- E.** The project ensures high-quality outcomes and does not negatively affect the quality of care delivered by existing service providers:
- F.** The project does not result in inappropriate increases in service utilization, according to the principles of evidence-based medicine adopted by the Maine Quality Forum; and

For all the reasons contained in this preliminary analysis and based upon information contained in the record, Certificate of Need Unit recommends that the Commissioner determine that this project should be **approved with conditions**.